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REPUBLIC OF NICARAGUA

GEOGRAPHY AND CLIMATE

The Republic of Nicaragua lies in the Central American isthmus, bounded by the Pacific Ocean to the west and by the Caribbean Sea to the east. Its neighbors are Honduras to the north and Costa Rica to the south.

Nicaragua is the largest of the Central American republics (139,000 square kilometres) and the least densely populated. The western part of the country has a coastal plain only slightly higher than sea level which rises gradually to rugged mountains in the central north. This lowland region is the most densely populated: most of the principal cities, including the capital Managua, and Leon and Grenada, are in this western region. The main city on the Caribbean coast is Bluefields.

The western part of the country is also marked by volcanic cones, some still active. The northern part of the lowland, sprinkled with volcanic ash over the millenia, has fertile soil. Two huge lakes, Managua and Nicaragua, are also in the west. Beyond the mountain range the interior is a sparsely inhabited wilderness of timbered plains and rolling hills cut by rivers. The eastern coastal plain extends 60 to 80 kilometres inland and is partly swamp.

The climate is tropical in the coastal regions with a mean average temperature of 27 degrees Celsius, and is more temperate in the highlands. The rainy season extends from May to October and average annual rainfall is 165 centimetres.

PEOPLE

The population of Nicaragua in mid-1982 was estimated at 2.9 million. In recent years, population growth has averaged more than 3 per cent a year, although some 50,000 Nicaraguans are estimated to have lost their lives in the civil war of 1979. The proportion of the population classified as urban was estimated at 60.6 per cent in 1982. This compares with a level of 36.3 per cent in 1960, giving an annual average growth rate for the urban population of 4.8 per cent between 1960 and 1982.

About 80 per cent of the population live in the western half of the country. Spanish is the national language but English is also spoken on the Caribbean coast. Most of the people are mestizo (77 per cent) with a smaller proportion of white (10 per cent), negro (9 per cent) and Indian (4 per cent). Illiteracy, estimated at 47.5 per cent of all adults in 1979, was a serious problem, and a major campaign to eradicate it was launched in 1980. This was successfully completed in 1981, and illiteracy has been reduced to 12 per cent.

HISTORY

A former Spanish colony, Nicaragua became an independent republic in 1838. Dissension between liberal and conservative groups kept the country in some turmoil after independence. A U.S. citizen, William Walker, even contrived to make himself president in 1856, but liberals and conservatives united long enough to expel him in 1857.

Political unrest and huge debt continued to plague the country into the 20th century, and in 1912, at the request of the Nicaraguan government, U.S. forces established bases in the country. They stayed until 1933, save for an interval from 1925-27 when they were withdrawn. The Good Neighbor Policy and the principle of non-intervention were adopted in 1933.

General A. Somoza Garcia, who led the country for 20 years, was assassinated in 1956 and his son, Louis A. Somoza, succeeded him as president. Louis retired in 1963. Former Foreign Minister René Schick succeeded Louis but died before the end of his term. In 1967 Anastasio Somoza Debayle, younger son of Somoza Garcia, was elected president and re-elected in 1974 for another six-year term.

The Somoza dictatorship crumbled in July 1979 after 18 months of civil war. Some 50,000 people are estimated to have died during the revolution and tens of thousands more were injured and left homeless. It was the Frente Sandinista de Liberacion Nacional (FSLN), with broad popular support, that won the struggle against the Somoza government forces.

A five-member Junta of National Reconstruction was created, made up of parties opposed to the Somoza regime. The Junta issued a "Statute of Rights and Guarantees for the Citizens of Nicaragua", providing for basic personal freedoms and the restoration of civil rights. The holding of elections was postponed to allow time for reconstruction of the much-damaged country. The government nationalized 40 per cent of the industrial capacity, introduced agrarian reforms, and embarked on a remarkably successful campaign to increase literacy.

In March 1981 the Junta was reduced from five to three members and Commander Daniel Ortega Saavedra was appointed its coordinator. A Council of State with an overall Sandinista majority was established in 1980 to propose a new constitution, revise the legal system, and provide the framework for presidential and constituent assembly elections.

However, in 1981 the political situation began to deteriorate. Former members of the National Guard (Somocistas), operating from camps in Honduras, began the counter-revolution which continues to the present time.

Elections were finally held in November 1984 after much controversy. The main problem concerned the unwillingness of the opposition parties to participate in elections in which the Sandinistas were certain to win a majority. Daniel Ortega was sworn in as head of state on January 10,

1985 for a six-year presidential term and immediately made it clear that economic considerations would remain his top priority in addition to the war against the contras.

ECONOMY

Agriculture is the dominant activity, employing about 40 per cent of the working population and providing 65 to 75 per cent of export earnings. Cotton, coffee and meat are the principal exports. The agricultural sector was severely disrupted by the revolutionary war, but with the aid of large subsidies, production was restored in 1981 to pre-revolution levels.

Workable deposits of gold, silver, lead and zinc were discovered in 1968 in northern Nicaragua, and gold production rose to 72,000 troy ounces in 1982. A national energy program using alternative energy sources aims to reduce imports of petroleum (which all come from Mexico) by 40 per cent. A 35 megawatt geothermal electricity plant is now operational at Momotombo.

Industry is on a modest scale, including a petroleum refinery, textile mills, tobacco, cement and soluble coffee plants, dairies and a wide range of processing plants. Lack of foreign exchange forced several factories to close after 1981, and in February 1982 the government introduced incentives for private manufacturers. In May 1982 industry was working at 60 per cent of capacity.

Although it has nationalized banking, insurance, mining, fishing and forestry, the government is encouraging the existence of private enterprise, which accounts for 60 per cent of the economy. After the war, the state expropriated one million hectares of land, of which 700,000 ha was converted into state farms and the rest transferred to peasant cooperatives.

Following two years of positive growth in 1976 and 1977, the civil war paralysed industrial and commercial activity, and real gross domestic product (GDP) fell by 35 per cent in 1979. In 1983 GDP growth was 3.2 per cent. Fear of expropriation has created an insecure investment climate, and much capital has gone abroad. Meanwhile unemployment stands at an estimated 24 per cent (1982).

The cost of living, as measured by the consumer price index, jumped by 31 per cent in 1983, after an increase of around 24 per cent in 1982 and 1981. The rate of increase has now gone up to 50-60 per cent. This is partly due to the ever more costly black market dollar and partly to the monetary expansion which the fiscal deficit has engendered.

The current account deficit on the balance of payments was an estimated U.S. \$450 million in 1982. The authorities have labored hard to increase the value of exports, but as yet to no avail. Exports in 1984 are estimated at U.S. \$365 million, compared with U.S. \$430 million in 1983. Imports, on the other hand, will have cost Nicaragua around U.S. \$850 million in 1984.

In 1983 net foreign exchange reserves were in deficit by U.S. \$120 million, and the country's foreign debt now stands at some U.S. \$2.8 billion.

CANADIAN ASSISTANCE - BACKGROUND (pre-1980)

As a result of the 1970 foreign policy review, Canada took steps to strengthen its ties with the rest of the hemisphere. CIDA's program of bilateral (government-to-government) technical assistance to Latin America began in 1971. In Nicaragua, total bilateral disbursements for the period from 1971 to 1979-80 were \$3.75 million. Most of this was accounted for by food aid and reconstruction following the 1972 Managua earthquake. During the remainder of the period, small projects emphasizing community development were administered through the Canadian embassy.

Prior to 1971, Canadian assistance to Latin America had been through the multilateral channel of the Inter-American Development Bank (IDB). Although Canada only became a full member of the IDB in 1972 (see Multilateral Assistance), a Canadian fund had been established in 1964 to be used by the Bank for development assistance loans to member countries.

Neither the bilateral technical assistance program nor joining the IDB marked the first time Canada participated in the economic and social development of Latin America. Canada has been a major participant in United Nations programs in the area ever since they were established. It also contributes to the World Bank Group, which finances many development projects in Central America. In both cases Canada's contributions are pooled with those of other countries, and development projects financed by these institutions are multilateral forms of cooperation.

Another form of multilateral assistance is humanitarian relief. Canada has provided assistance to the people of Nicaragua through the International Committee of the Red Cross which assists victims of civil conflict. In particular, Canada provided \$501,000 from 1978 to 1980 during the economic and political upheaval of the civil war.

Of course, Canadians have been involved in the region for many years prior to the commencement of official aid programs. Links have been forged by the work of religious orders, voluntary agencies and other non-governmental organizations (NGOs). In 1968 CIDA formed an NGO Division which subsidizes selected projects. At the end of the 1970s CIDA was assisting 10 such projects in Nicaragua, having a total value of \$1.46 million.

CURRENT CANADIAN ASSISTANCE (1980-85)

For the period 1980-81 to 1984-85, bilateral aid disbursements to Nicaragua have totalled \$11.9 million. The main components of that assistance have been \$3.47 million in 1983-84 and \$6.3 million in 1984-85 under an agriculture line of credit. Details of current bilateral projects in Nicaragua follow in the descriptions of key

sectors of the economy. CIDA also financed a food strategy for a value of \$655,800 during 1982-1984. Emergency food aid was allocated in 1981-82 for the supply of \$4.5 million of wheat and again in 1983-84 for \$2.82 million.

Agriculture

Nicaragua depends on agriculture, forestry and fishing for about one-quarter of its gross domestic product, and some 40 per cent of the country's labor force is engaged in the sector.

The area devoted to arable land and permanent crops represents 10.6 per cent of land area. Maize, rice, sorghum and dry beans are the main crops grown for domestic use, while sugar, bananas, coffee and cotton are grown for export. Beef and veal are also important exports for Nicaragua.

Agricultural exports are Nicaragua's primary source of foreign exchange, and agriculture is the only sector in the economy which, on the whole, has regained pre-civil war levels of output. While cotton and sugar output have recovered steadily in recent years, the main shortfall has been coffee, with output falling by 35 per cent in 1983-84 over 1982-83. The poor weather was one factor in the decline, but attacks by contras were also important. The authorities have announced price and wage increases in agriculture in an effort to improve incentives.

Canadians are assisting Nicaragua's Ministry of Agriculture to design a program to lessen the country's dependency on foreign supplies of basic commodities, while increasing the availability of agricultural exports. CIDA is providing a \$655,000 grant for this "food strategy project", to examine staple grains, perishables, semi-processed goods, marketing and consumption, and the farm community and government institutions required to support these mechanisms. Some projects such as grain storage and warehousing involving cooperatives will result from the study, but Canada is not responsible for their implementation.

Another bilateral initiative has involved the provision of a \$13.4 million line of credit to assist Nicaragua in developing its productive capacity in basic foods and milk production. The line of credit involves both a loan and a grant portion. The loan (\$13 million) will cover purchases of fertilizer, equipment for forage-harvesting, irrigation and milking, and Holstein calves. The grant portion, \$400,000, is to cover monitoring and evaluation.

The equipment and calves are for use by the Chiltepe Dairy Farm, located by Lake Managua. Fertilizers provided will be mixed and distributed throughout the country. The credit is handled by the International Reconstruction Fund, through the Ministry of Agricultural Development and Agrarian Reform.

To encourage rural development, Canada has also extended a \$7.5 million line of credit to Nicaragua to improve the supply of potable water in rural areas. Purchases are expected to begin in 1985, with funds covering the purchase in Canada of materials and equipment for the

construction of potable water systems, such as pipe, drilling rigs and pumps. The grant portion of the project (\$500,000) will cover the services of a Canadian purchasing agent and costs of monitoring and evaluation.

Food Aid - Canadian food aid is provided to developing countries under bilateral agreements, through the multilateral channel of the World Food Program (WFP), and through NGOs. For the 1980-81 to 1984-85 period, Canada provided a total of \$25.97 million in food aid to Nicaragua through these channels. Bilateral food aid shipments of wheat in 1981 and in 1983 comprised \$7.32 million of the total. Canadian contributions to the WFP for the period totalled \$18.25 million in wheat flour, beans, vegetable oil, powdered eggs, skim milk powder, fish and corn. Finally, the Mennonite Central Committee, Assistance médicale internationale, and the Canadian Lutheran World Relief organization provided \$431,000 worth of skim milk powder over the five-year period.

Manufacturing

Manufacturing is also important to the Nicaraguan economy, representing, like agriculture, about one-quarter of the GDP. However, manufactures account for about 32 per cent of exports versus the 67 per cent represented by agricultural products (1982).

The manufacturing sector grew rapidly in the 1970s, but has experienced acute difficulties since the 1979 civil war, when net output fell by 26.8 per cent. The sector is still largely in private hands, but its dependence on imported inputs has made it very sensitive to the severe shortage of foreign exchange.

Energy

Wood still accounts for 56 per cent of the consumption of energy in Nicaragua, with a further 38 per cent provided by oil and only 6 per cent by hydroelectricity. Since forest resources have not been adequately renewed in Nicaragua, the consumption of wood products is regarded as dangerously high. The dependence of oil consumption on imports is also regarded as unsatisfactory, as these accounted for 27 per cent of total import outlays in 1982.

The state has therefore embarked on an ambitious plan to increase the share of energy consumption met by hydroelectricity. In 1982 the IDB approved a loan of U.S. \$34.4 million for the construction of the Asturias hydroelectric complex.

Nicaragua has also requested Canada's participation in Phase II of the Momotombo Geothermal Project involving Italy and France, and coordinated by the IDB. Canadian participation in the project is estimated at \$11 million Cdn., out of a total project cost of U.S. \$52 million.

Community Development

Canadian embassies in developing countries respond to requests for assistance from local community groups in need of funds for small

projects. In most cases the maximum annual allowance for these mission administered funds is \$350,000. The use of such funds in Nicaragua in 1983-84 involved, among other things, purchases of construction materials and equipment for housing displaced persons (two projects at \$50,000 each), laboratory equipment and medical supplies for clinics (three projects totalling \$107,995), an ambulance boat for Omotepe Island in Lake Nicaragua (\$37,200), and sewing materials and machines for a sewing cooperative in San Isidro Libertador (\$18,125).

Non-Governmental Organizations and Institutional Cooperation

Although bilateral disbursements represent the largest of Canada's channels for aid to Nicaragua, CIDA's assistance to NGOs and other Canadian institutions participating in development is becoming increasingly important. In 1983-84, for example, of the total \$11.74 million in country-to-country disbursements, \$7.15 million was bilateral, \$3.16 million was through funding of NGO projects, and \$1.05 million was through funding of development projects involving Canadian institutions.

The \$3.16 million was provided by CIDA in support of 107 projects involving 22 organizations working in Nicaragua. The largest proportion of these projects was in the field of education (24 per cent), followed by health and population (20 per cent), community development (16 per cent), and food production (14 per cent). As of 1983-84, total CIDA commitments to NGOs working in Nicaragua were higher than for those working in any other country in the Americas or the Caribbean.

Typical of the grass roots projects to which NGOs commit themselves in developing countries is one involving the Canadian Farmers Technical Brigade, a group of Alberta farmers who recently spent two months in Nicaragua helping local farmers develop machinery repair facilities. CIDA provided \$103,900 for this project to permit Oxfam Canada, in conjunction with local Alberta organizations including Edmonton Tools for Peace and church groups, along with the National Farmers Union and the Alberta government, to send farmers supplied with agricultural equipment and spare parts to Nicaragua. The project made an immediate contribution and provided valuable long-term training to local farmers.

CIDA's program of institutional cooperation involves assistance to Canadian institutions like CUSO, the universities, unions, and cooperatives which are involved in Third World development projects; these institutions are primarily involved in education and are not fund-raisers. CIDA provided \$1.05 million in 1983-84 in support of 6 agencies involved in 10 projects in Nicaragua.

The largest project, in terms of CIDA funding, is a nutrition training program involving the University of Moncton, New Brunswick, the Nicaraguan Ministries of Health and Education, and three Nicaraguan universities. Basic nutritional services are being put into place in schools and hospitals, and local people are being trained in home economics, food preservation, operation of hospital diet kitchens, and the measurement of children's growth. Since the inception of the project in 1980, CIDA has provided some \$1.8 million in funding.

Industrial Cooperation

CIDA's Industrial Cooperation program supports initiatives by the Canadian private business sector aimed at establishing joint ventures or other forms of collaboration in order to transfer technology to developing countries. In 1983-84, J.L. Richards and Associates of Ottawa received \$45,000 for a pre-feasibility study into the design of the water and sewage systems of the Bluefields municipality. Also, Gaucher Pringle Consultants of Montreal received \$97,725 for a pre-feasibility study into charcoal production.

Multilateral Assistance

Canadian funds are also channeled to Nicaragua and other Central American countries through the Inter-American Development Bank (IDB); the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) - both are institutions of the World Bank; agencies of the United Nations; and the World Food Program.

From 1981 to 1984, Nicaragua received U.S. \$73.9 million in loans from the IDB, with emphasis on agricultural and industrial recovery and rural health services. (Canadian capital subscriptions and contributions to special funds at the IDB have been around \$25 million a year from 1980-81 to 1983-84.)

For the three years from 1980 to 1982 inclusive, Nicaragua received loans totalling U.S. \$69.7 million from the IBRD, and U.S. \$37 million from IDA. These loans were for various projects in agriculture and rural development, urbanization, water supply and sewerage, and lending to local development finance companies. There has been no new lending since 1983 due to Nicaragua's failure to meet payments on previous loans. (Canadian advances to IDA have averaged \$158.68 million a year over the four years from 1980-81 to 1983-84; capital subscriptions to the IBRD amounted to \$29 million in 1982-83 and \$50.29 million in 1983-84 -- there were no Canadian investments in IBRD in 1980-81 or 1981-82.)

The largest of the UN agencies is the United Nations Development Program (UNDP); in fact it is the world's largest technical assistance organization and its projects are often executed through the intermediary of the more specialized UN agencies. During the 1982-86 cycle, UNDP spending in Nicaragua is expected to reach U.S. \$5.23 million, with the main allocations being in general development planning and activity (33 per cent), agriculture, silviculture and fishing (17 per cent), industry (10 per cent), and international trade and development financing (6 per cent). Canada's contributions to the UNDP have averaged \$50.75 million a year for the four years from 1980-81 to 1983-84.

Other UN agencies active in Nicaragua are UNICEF (U.S. \$2.5 million in 1984) and the UN Fund for Population Activities (U.S. \$260,000 in 1983). Canada's contributions to UNICEF averaged \$11.68 million a year from 1980-81 to 1983-84; and for UNFPA, \$8.86 million.

Canadian contributions for humanitarian assistance in the Central American region have been channeled through the UN High Commissioner for Refugees. For the 1980-85 period, Canadian contributions have totalled \$8 million. In Nicaragua specifically, Canada has contributed \$1.07 million since 1980 to the International Committee of the Red Cross, which assists victims of civil conflict. There has also been Canadian support for the victims of flooding in 1982, through a \$200,000 donation to the Red Cross and \$80,000 through the Canadian Council of Churches. In 1981-82, \$50,000 was provided to the Red Cross for famine relief in Nicaragua.

Canadian food aid contributions to Nicaragua through the World Food Program were noted in the Food Aid section.

PROFILE

Official name	Republic of Nicaragua
Capital	Managua
Official language	Spanish
Other languages spoken	English
Date of independence	September 15, 1838

<u>Comparative data</u>	<u>Nicaragua</u>	<u>Canada</u>
Area	139,000 sq. km.	9,976,000 sq. km.
Population (1982)	2,900,000	24,600,000
Life expectancy at birth (1982)	58 years	75 years
Infant mortality rate	86 per 1,000 live births	10 per 1,000 live births
Daily per capita calorie supply as percentage of requirement (1982)	99%	126%
Adult literacy rate	88%	99%
Percentage of labor force in agriculture	39%	5%
industry	14%	29%
services	47%	66%
Gross national product per capita (1982)	U.S. \$920	U.S. \$11,320
GNP average annual growth rate (1960-1982)	.2%	3.1%
Inflation rate (1970-1982)	14.3%	9.3%

Version française disponible sur demande

June 1985

Produced by the Public Affairs Branch
Canadian International Development Agency (CIDA)
Hull, Quebec
K1A 0G4

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